



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	SB0445	Title:	Expand energy conservation and efficiency program
Primary Sponsor:	Tropila, Mitch	Status:	As Introduced

- | | | |
|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Expenditures:				
General Fund	\$33,534	\$31,816	\$29,434	\$32,047
State Special Revenue	\$289,117	\$289,117	\$289,117	\$289,117
Revenue:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance	<u>(\$33,534)</u>	<u>(\$31,816)</u>	<u>(\$29,434)</u>	<u>(\$32,047)</u>

Description of Fiscal Impact:

This bill allows for loans to be made for the additional purpose of energy conservation out of the alternative energy loan account. No new revenue is created because of the program. The existing balance of funds in the loan account will be used at a faster rate under this bill. The loan fund would be fully subscribed within four years and loans made in FY 2012 and later would be at a reduced amount. This bill would require additional expenditures in personal services and operating expenses to administer additional loans including contracted services to accept and process loan applications.

FISCAL ANALYSIS

Assumptions:

1. The alternative energy loan account is funded through a combination of air quality administrative and judicial penalties, loan receivable interest, and interest earnings. Revenue into the account has averaged \$297,387 annually from its inception in FY 2002 through FY 2006.
2. The balance of the alternative loan account at the beginning of FY 2007 was \$1,425,791.
3. Loans made in FY 2007 are expected to nearly equal the annual revenues into the account. Therefore, it is assumed that there will be an existing balance in the loan account of about \$1,425,791 again beginning in FY 2008.
4. Alternative energy loans have been made out of the account since FY 2004. The loaned amount was \$47,959 in FY 2004, \$31,990 in FY 2005, and \$263,157 in FY 2006. The large increase in FY 2006 was

due to changes made by the 2005 Legislature that allowed for larger loans as well as the program becoming better known through marketing.

5. It is expected that the loans for alternative energy will increase at a rate of 15% per year from the FY 2006 amount. Alternative energy loans would be made for \$348,026 in FY 2008, \$400,229 in FY 2009, \$460,264 in FY 2010, and \$529,304 in FY 2011. Administrative costs for the loans would add 10% to the annual costs. So, the total used out of the loan account would be \$382,828 in FY2008, \$440,252 in FY 2009, \$506,290 in FY 2010 and \$582,234 in FY 2011.
6. Loans made and expenditures for administrative costs will exceed revenue coming into the alternative energy loan account beginning in 2008. The amount in excess of annual revenues is expected to be \$55,541 in FY 2008, \$78,965 in FY 2009, \$105,003 in FY 2010 and \$134,947 in FY 2011 for a total of \$374,457 over four years. The amount available for loans for an expanded program is the difference in the existing balance in the loan account, minus the growth for the alternative energy loans over four years, or \$1,051,335.
7. It is assumed that the \$1,425,791 balance currently in the account will be completely used over four years to cover the additional loans that this bill would create. Once used, loans would only be made from the revenue coming in each year and this would begin in FY 2012.
8. Eligible participants for the loan program include individuals, small businesses, local governments, university system, and non-profit organizations. Under current law, loans can be made for conservation investments only as part of a loan package for an alternative energy system. Any alternative energy system can be financed.
9. Under the proposed bill, the Alternative Energy Revolving Loan Program will be expanded to allow financing for projects that involve only energy conservation investments. This change will likely increase the number of loans that are processed each fiscal year. The number of additional loans that will be made is difficult to estimate. Assuming that a conventional loan is available at an 8% interest rate and the Alternative Energy Revolving Loan Program remains at a 5% interest rate, there is an interest rate advantage to borrowers of about 3%. However, loans can already be obtained through conventional sources in every community.
10. In 2005, 5.3% of Montana households took the Energy Conservation tax credit for a total of 13,545 households (DOR). This number does not include businesses and non-profit organizations that could also qualify for loans, but will be used as an estimate for all loans to be made.
11. Assume 2% of 13,545 households or businesses use the alternative energy loan program for a conservation loan. Thus, 271 conservation loans are made in the first year, FY 2008. If this number increases at 15% per year due to increasing awareness of this program, then 312 households would participate in FY 2009, 358 in FY 2010 and 412 in FY 2011.
12. The amount of funds borrowed with each loan can vary substantially depending on the alternative energy system installed or the types of conservation investments made by the borrower. Conservation loans made to individuals can typically range from \$4,000 to \$10,000. Alternative energy system loans can typically range from \$10,000 to \$40,000. The average conservation loan assumed for this analysis is \$5,000.
13. Thus, additional expenditures from this account for conservation loans if the total number of energy conservation loans requested are made, is estimated at \$1,355,000 in FY 2008, 271 loans X \$5000, \$1,560,000 in FY 2009, \$1,790,000 in FY 2010, and \$2,206,000 in FY 2011.
14. The request for loans from the account including both alternative energy and energy conservation is estimated at \$1,702,526 in FY 2008, \$1,957,904 in FY 2009, \$2,251,590 in FY 2010 and \$2,589,329 in FY 2011. This is the total amount request, if all loans were granted.
15. It is assumed that not all loans will be granted, because these requested amounts would quickly run the account down to \$0. Loans will not be made that exceed the ability of the program to sustain itself. It is also assumed that loans for alternative energy systems would be a priority. If alternative energy loans were made at the amounts estimated in assumption 5, and loans made for energy conservation purposes were made from the balance in the loan account, and the use of that balance was spread out over four

years, there would be \$262,834 available annually for loans for energy conservation. There would be no funds available for energy conservation loans by FY 2012 and there may not be enough funds for alternative energy loans.

16. This bill would require additional FTE at DEQ to administer the program and additional contracted services to accept and process loan applications. An estimated 53 new loans in FY 2008 growing to 194 additional loans by 2011 would require 0.5 FTE at DEQ for a Public Education Specialist, to recruit loans and administer the program. This would result in an additional expenditure of \$27,144 in FY 2008, \$27,144 in FY 2009, \$27,823 in FY 2010 and \$28,519 in FY 2011 for personal services and \$32,673 in FY 2008, \$30,955 in FY 2009, \$27,894 in FY 2010, and \$29,811 in FY 2011 for operating expenses.
17. These FTE would be partially funded out of the special revenue account and partially out of the general fund. The reason is that only 10% of total conservation loans, or \$26,283 from the special account can be used for administrative purposes. Therefore, the general fund would need to cover the remainder of the cost. The additional costs to the general fund would be \$33,534 in FY 2008, \$31,816 in FY 2009, \$29,434 in FY 2010, and \$32,047 in FY 2011.

	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
FTE	0.50	0.50	0.50	0.50
<u>Expenditures:</u>				
Personal Services	\$27,144	\$27,144	\$27,823	\$28,519
Operating Expenses	\$295,507	\$293,789	\$290,728	\$292,645
TOTAL Expenditures	\$322,651	\$320,933	\$318,551	\$321,164
<u>Funding of Expenditures:</u>				
General Fund (01)	\$33,534	\$31,816	\$29,434	\$32,047
State Special Revenue (02)	\$289,117	\$289,117	\$289,117	\$289,117
TOTAL Funding of Exp.	\$322,651	\$320,933	\$318,551	\$321,164
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Revenues	\$0	\$0	\$0	\$0

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$33,534)	(\$31,816)	(\$29,434)	(\$32,047)
State Special Revenue (02)	(\$289,117)	(\$289,117)	(\$289,117)	(\$289,117)

Long-Range Impacts:

1. The loans will decrease in FY 2012 to the level of ongoing revenue to the fund once the built up fund balance has been loaned out.

Sponsor's Initials

Date

Budget Director's Initials

Date